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India

Sugar Annual

2010

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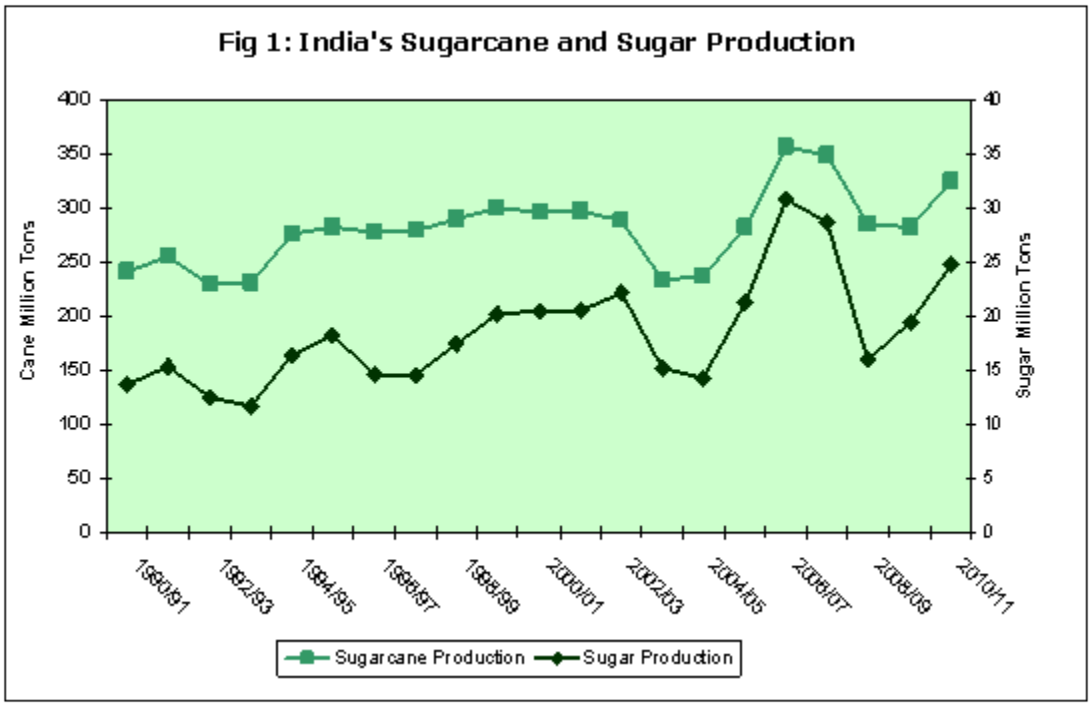
Report Highlights:
India's marketing year (MY) 2010/11 (October-September) sugar production is forecast to increase by 27 percent to 24.7 million tons (raw value basis) on forecast higher sugarcane production. Improved domestic supplies will support recovery in consumption to 24.5 million tons, and limit imports to 1.2 million tons after the record imports of 4.5 million tons in MY 2009/10.

Note: All sugar data in the report are on raw value basis unless otherwise noted.

Commodities:
Sugar, Centrifugal

Production:
Sugarcane and sugar production in India typically follow a 6 to 8 year cycle, wherein 3 to 4 years of higher production are followed by 2 to 3 years of lower production. After two consecutive years of declining sugar production (MY 2007/08 and 2008/09), production resurged in MY 2009/10, and is set to gain strongly in the upcoming MY 2010/11.



India's total centrifugal sugar production in MY 2010/11 is forecast at 24.7 million tons (including 435,000 tons of *khandsari* sugar [1]), up 27 percent from the MY 2009/10, on expected improved sugarcane supplies due to higher cane planting and yields. *Gur* [2] production is forecast lower at 5.6 million tons compared to 6.6 million tons last year on expected weak prices.

Relatively strong cane prices *vis-a-vis* last year and also compared to competing food crops (rice, wheat, pulses) during the ongoing MY 2009/10 will support higher cane acreage; MY 20010/11 is forecast to increase by 13 percent to 4.8 million hectares. Assuming normal monsoon and subsequent weather condition, yields are expected to improve over last year's adverse weather impacted crop. Consequently, MY 2010/11 sugarcane production is forecast higher at 325 million tons compared to 282 million tons in MY 2009/10.

Post's MY 2009/10 centrifugal sugar production estimate is revised higher to 19.5 million tons due to lower diversion of cane for production of alternative sweeteners (*khandsari* and *gur)* and better than anticipated cane production. After drought like conditions in June through mid-August, most of the cane growing areas received adequate and well scattered rains from mid-August through October during the crop growth stage. Low winter temperature and scattered rains in December-January further contained expected crop damage due to early dry conditions. High sugar prices and 'speculation' [3] on lower cane crop resulted in sugar mills offering substantial increase in cane prices to farmers compared to last year (see Table 6). The higher cane prices by the sugar mills coupled with relatively weak *gur* prices *vis-a-vis* sugar (see tables 5 & 6) limited the diversion of sugarcane for production of *gur* during the peak crushing season.

The mill sugar production for MY 2009/10 up to March 15, 2010 is estimated at 15.3 million tons (crystal weight basis) compared to 13.3 million tons for the corresponding period of MY 2008/09. The recent weakening of *gur* prices has lowered the prospects for late season diversion of cane for *gur* production. Crushing is going on in the major producing states of Maharashtra and U.P., and may continue through April/early May, nearly 4 weeks longer than last year. Industry sources report the average crushing duration during the MY 2009/10 at 150 days (vs. 120 days last year) and average sugar recovery higher at 10.3 percent (vs. 10.0 percent last year). Consequently, MY 2009/10 centrifugal sugar production has been raised to 19.5 million tons against the earlier estimate of 17.3 million tons.

Post's estimates for MY 2008/09 sugarcane production have been revised higher and sugar production revised marginally lower based on final estimates from the Ministry of Agriculture and the Indian Sugar Mills Association, respectively.

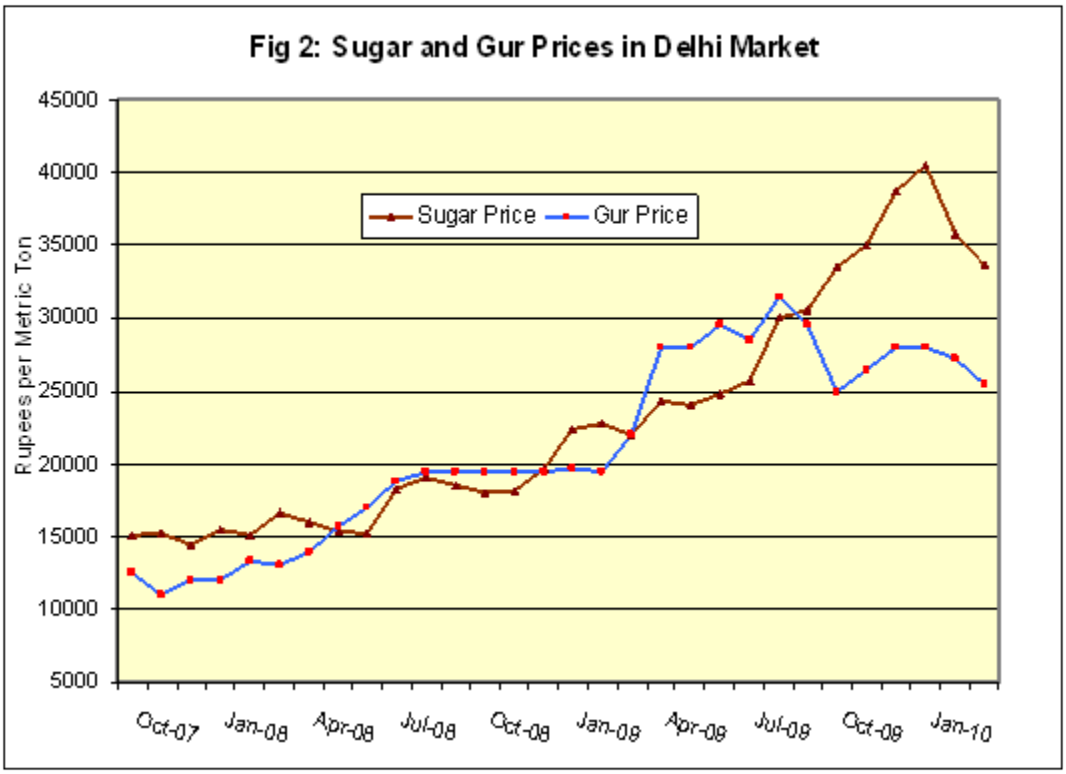
[1] *Khandsari* sugar: a low recovery centrifugal sugar prepared by open-pan evaporation method.
[2] *Gur:* a crude non-centrifugal sugar in lump form produced by open pan evaporation method.
[3] GOI's initially estimated MY 2009/10 sugarcane crop at 249 million tons in December, 2009.

Consumption:

Sugar consumption in MY 2010/11 is forecast to increase to 24.5 million tons on forecast improved domestic supplies and strong demand – fueled by a growing population and continued growth in economy [1] . Bulk consumers such as bakeries, makers of candy and local sweets, and soft-drink manufacturers account for about 60 percent of mill sugar demand. Most of the *khandsari* sugar is consumed by local sweets manufacturers. *Gur* is mostly consumed in rural areas for household consumption and feed use.

Prices

Despite various measures taken by the Government of India (GOI) to control sugar prices [2] , sugar prices escalated during calendar year 2009 on fears of short domestic supplies [3] and strong international sugar prices. Sugar prices have eased significantly from February 2010 (see table 5) on improved expectations of domestic production in MY 2009/10 and forecast higher production in MY 2010/11.



March end sugar prices in major domestic wholesale markets ranged from $685 to 745 per ton, about 17 percent lower than peak prices in January, 2010. However, sugar prices are still more than 50 percent higher than prices in March 2009. Prices are expected to continue to weaken further in the coming months on improved domestic supplies, although international price movements can impact domestic prices. *Gur* prices had been under pressure from the beginning of the MY 2009/10 due to record opening stocks (see Table 6). However, gur prices are expected to remain stable relative to sugar prices in the coming months due to drawdown in the stocks and lower production in MY 2009/10 and MY 2010/11.

Stocks

The MY 2010/11 ending stocks are forecast higher at 5.36 million tons compared to 3.98 million tons for MY 2009/10 ending stocks, both well below the normal acceptable stock levels of the three-month consumption requirement.

[1] Despite the global recession, the Indian economy showed a recovery in Indian fiscal year 2009/10 (April/March) with growth rate expected at 7.2 percent compared to 6.7 percent in IFY 2008/09. Analysts expect Indian economy to grow further in IFY 20010/11 anywhere between7.5 to 9 percent per annum. Indian population has been growing at 1.8 percent per annum as per the last census.
[2] For more information see IN9133 and IN9129.
[3] Industry estimates about India's mill sugar production estimates were as lows at 12.0 to 14.0 million tons at the beginning of the season.

Trade:

India's MY 2010/11 imports are forecast lower at 1.2 million tons due to forecast improved domestic supplies. Industry sources expect imports mostly during the early part of the season. The GOI may withdraw the relaxed import policy [1] on improving domestic supplies and lowering of sugar prices to more comfortable levels as the domestic crushing season

progresses. Despite forecast higher sugar production, relatively tight domestic supplies preclude any significant commercial exports of sugar in MY 2010/11; exports will be largely limited to quota countries.

Post's MY 2009/10 import estimate is revised lower to 4.5 million tons based on the current pace of imports reported by industry sources. Trade sources estimate India's sugar imports during the October 2009 to February 2010 at 2.9 million tons; of which about 2.3 million tons is raw sugar mostly from Brazil, and rest white sugar from Thailand, Brazil, U.A.E. An additional 500,000 tons, mostly white sugar, have been contracted for delivery through June/July, 2010. Despite weakening domestic sugar prices, industry sources expect additional imports of raw sugar in August/September before the beginning of the next crushing season. Consequently, MY 2009/10 imports are forecast to reach a record level of 4.5 million tons [2] .

Post's MY 2008/09 sugar exports have been revised marginally based on the export and import shipments compiled by the industry sources (see Table 8 & 9).

TRADE POLICY

Forced by the severe domestic shortages and abnormally high sugar prices since beginning of 2009, the GOI took several measures to relax import restrictions to augment domestic supplies.

On February 17, 2009, the government relaxed the norms for duty free imports of raw sugar under the advance licensing scheme (ALS) [3] exempting future export commitments from actual user conditions [4] for raw sugar imports during February 17, 2009 to September 30, 2009. On April 17, 2009, the government allowed mills to import raw sugar at zero duty under the open general license (no future export commitments). The government also allowed select state trading enterprises (STEs) to import white sugar [5] at zero duty. Subsequently, on July 31. 2009, the government allowed duty free imports of white sugar by traders and processors until November 31, 2009 [6] .

Through a series of notifications the GOI has extended the duty free imports of raw sugar and white sugar up to December 31, 2010. The GOI has also exempted imported sugar, both raw sugar and white sugar, from the levy sugar obligation and the market quota release system, applicable to domestic sugar. With the sugar prices easing, there is an increasing pressure from the local industry to re-impose the import duties on white and raw sugar, and reverting back to the old import policy regime. Currently, the GOI does not allow exports of sugar and nor provide any export incentive (transport subsidy) for sugar.

[1] The local industry is already lobbying for re-imposition of import duty on white sugar imports alleging that the sugar prices have declined below cost of production after paying the high cane price to farmers.
[2] Nearly 62 percent higher than the last year's record imports of 2.8 million tons.
[3] The mills are permitted to sell the raw sugar imported under ALS after refining in the domestic market, subject to the condition that they will re-export 1.00 ton of refined sugar for every 1.05 tons of raw sugar imported within two years.
[4] Importing mill or traders can meet the re-export commitment by exporting domestic sugar produced by the mill in the future or procuring and exporting domestic sugar produced from any other mill.
[5] The basic import duty on sugar (ITC HS Code 1701) is 60 percent advalorem on the CIF value, plus a countervailing duty (CVD) of Rs. 950 ($21.11) per ton. In addition, there is an education cess of 3 percent on the total import duty (basic import duty plus CVD).
[6] For more information refer Sugar Semi Annual 2009 (IN9129) for more information

Policy:

Sugarcane Production and Pricing Policy

The Government of India (GOI) supports research, development, training of farmers and transfer of new varieties and improved production technologies (seed, implements, pest management) to growers in its endeavor to raise cane yields and sugar recovery rates. The Indian Council of Agricultural Research (ICAR) conducts sugarcane research and development at the national level. State agricultural universities, regional research institutions, and state agricultural extension agencies

support these efforts at the regional and state levels. The central and state governments also support sugarcane growers by ensuring finances and input supplies at affordable prices.

The GOI establishes a minimum support price (MSP) for sugarcane on the basis of recommendations by the Commission for Agricultural Costs and Prices (CACP) and after consulting State Governments and associations of the sugar industry and cane growers. Last year the GOI announced a new system of fair and remunerative Price (FRP) that would links the cane prices with sugar price realization by the sugar mills. Several state governments further augment the MSP/FRP, typically by 20-25 percent, due to political compulsions rather than market pricing.

Sugar mills are required to pay the "state advised price (SAP)" to sugarcane farmers irrespective of the market price of sugar. However, high sugar prices coupled with 'fears' of lower cane crop encouraged the sugar mills to pay much higher prices than the FRP or SAP in most of the growing states. Although the local industry has been advocating rationalization of cane pricing policy by linking it with domestic/world sugar prices, industry sources do not expect any downward revision of FRP in the coming years if the sugar prices decline given the political clout of the farmers lobby.

Sugar Production and Marketing Policy

The GOI levies a fee of Rs. 240 ($5.33) per ton of sugar produced by mills to raise a Sugarcane Development Fund (SDF), which is used to support research, extension, and technological improvement in the sugar sector. The SDF is also often used to support sugar buffer-stocks operations, provide a transport subsidy for sugar exports, and provide an interest subsidy on loans for the installation of power generation and ethanol production plants. In March 2008, the GOI enacted the Sugar Development Fund (Amendment) Bill, 2008 that enables the government to include the use of the funds for debt restructuring and soft loans to the sugar mills.

The GOI follow a policy of partial market control and dual pricing for sugar. The local sugar mills are required to supply 20 percent [1] of their production to the government as 'levy sugar' at below-market prices, which the government distributes through the Public Distribution System (PDS) to its below-poverty line population at subsidized rates. Mills are allowed to sell the balance of their production as 'free sugar' at market prices. However, the sale of free-sale sugar and levy sugar is administered by the government through periodic quotas [2] , designed to maintain price stability in the market.

On March 12, 2009, the central government advised the state governments to impose stock and turnover limits on traders to prevent hoarding of sugar. Khandsari sugar has also been brought under the ambit of stockholding and turnover limit from July 17, 2009. Most state governments imposed stock and turnover control orders in their respective states. On August 22, 2009, the government imposed stock holding limits on large consumers (food and beverage companies) who consume more than 1.0 ton of sugar per month. Initially these consumers were asked to maintain stock necessary to meet not more than 20 days requirement; which was further lowered to 10 days requirements in February 2010. These limits are effective up to Sept 30, 2010. With the improvement in domestic sugar supplies, there is growing pressure from the domestic sugar mills and traders to remove these stock limits.

In May 2001 the government allowed futures trading in sugar, and three national exchanges have been given permission to engage in sugar futures trading. However, in May 2009, the government suspended futures trading in sugar until December 2009, which has been subsequently extended till September end 2010.

Ethanol Program

India's ethanol program is based on producing ethanol from sugar molasses, a by-product of the sugar industry and not directly from sugarcane or corn as in most countries. For more on India's ethanol program, please refer Gain report India's Biofuel Annual 2009 (IN9080).

[1] The GOI raised the levy sugar ratio from 10 percent to 20 percent from October 2009.
[2] Normally, the central government announces a three month quota allocation for free sale and levy sugar with specific allocation to each sugar mill. However, the GOI shifted to announcing monthly quota from February 2009.

Production, Supply and Demand Data Statistics:

Table 1: Commodity, Centrifugal Sugar (raw value basis), PSD

(Figures in '000 MT)

Sugar, Centrifugal India	2009			2010			2011		
	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Oct 2008			Market Year Begin: Oct 2009			Market Year Begin: Oct 2010		
	USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		New Post
			Data			Data			Data
Beginning Stocks	9,150	9,150	9,150	3,690	3,690	3,520			3,975
Beet Sugar Production	0	0	0	0	0	0			0
Cane Sugar Production	16,130	16,130	15,960	17,300	17,300	19,460			24,700
Total Sugar Production	16,130	16,130	15,960	17,300	17,300	19,460			24,700
Raw Imports	2,500	2,500	2,500	5,000	5,000	3,300			1,000
Refined Imp.(Raw Val)	300	300	300	1,000	1,000	1,200			200
Total Imports	2,800	2,800	2,786	6,000	6,000	4,500			1,200
Total Supply	28,080	28,080	27,896	26,990	26,990	27,480			29,875
Raw Exports	0	0	0	0	0	0			0
Refined Exp.(Raw Val)	190	190	176	10	10	5			20
Total Exports	190	190	176	10	10	5			20
Human Dom. Consumption	24,200	24,200	24,200	23,500	23,500	23,500			24,500
Other Disappearance	0	0	0	0	0	0			0
Total Use	24,200	24,200	24,200	23,500	23,500	23,500			24,500
Ending Stocks	3,690	3,690	3,520	3,480	3,480	3,975			5,355
Total Distribution	28,080	28,080	27,896	26,990	26,990	27,480			29,875
TS=TD			0			0			0

Note: Stocks include only milled sugar, as all *khandsari* sugar produced is consumed within the marketing year. Virtually no centrifugal sugar is utilized for alcohol, feed, or other non-human consumption.

Table 2: Commodity, Sugarcane, Centrifugal, PSD

(Area in '000 hectare and others in '000 MT)

Sugar Cane for Centrifugal India	2009			2010			2011		
	2008/2009			2009/2010			2010/2011		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2010		
	USDA Official Data		New Post	USDA Official Data		New Post	USDA Official Data		New Post
			Data			Data			Data
Area Planted	4,410	4,380	4,400		4,250	4,250			4,800
Area Harvested	4,410	4,380	4,400		4,250	4,250			4,800
Production	280,000	271,250	285,030		278,000	282,000			325,000
Total Supply	280,000	271,250	285,030		278,000	282,000			325,000

Utilization for Sugar	211,500	152,500	151,500		161,500	179,800			231,000
Utilizatn for Alcohol	68,500	118,750	133,530		116,500	102,200			94,000
Total Utilization	280,000	271,250	285,030		278,000	282,000			325,000
TS=TD			0			0			0

Note: Virtually no cane is utilized directly for alcohol production. 'Utilization for alcohol' in the PS&D includes cane used for gur, seed, feed and waste. 'Utilization for sugar' data include cane used to produce mill sugar and khandsari sugar.

Table 3: Sugarcane Area, Production, and Utilization

(Area in million hectares, Yield in metric tons per hectare, and Others in million metric tons)

Sugar Cane	AREA/1	YIELD/1	PRODN /1	SUGAR/2	KHANDSARI/3	GUR /3	SEED/3
	Mha	MT/ha	MMT	MMT	MMT	MMT	MMT
1985/86	2.86	59.99	171.68	68.98	10.48	71.62	20.60
1990/91	3.69	65.39	241.05	122.32	13.18	76.63	28.93
1995/96	4.15	68.02	282.09	174.76	10.00	67.27	30.06
2000/01	4.32	68.49	295.60	176.65	11.00	72.48	35.47
2001/02	4.41	67.38	297.21	180.32	10.50	70.73	35.67
2002/03	4.52	63.58	287.38	194.33	9.50	49.07	34.49
2003/04	3.94	59.39	233.86	132.51	10.00	61.35	30.00
2004/05	3.66	64.74	237.09	124.77	9.50	74.37	28.45
2005/06	4.20	66.93	281.17	188.67	8.50	49.00	35.00
2006/07	5.15	69.03	355.52	279.30	7.50	32.73	36.00
2007/08	5.06	68.81	348.19	249.91	7.00	59.28	32.00
2008/09	4.40	64.78	285.03	144.98	6.50	100.55	33.00
2009/10	4.25	66.35	282.00	173.00	6.80	66.20	36.00
2009/10 /3	4.80	67.71	325.00	224.00	7.00	56.00	38.00

Note: Figures for 2008/09 and 2009/10 are FAS estimates.

Source: /1: Directorate of Economic and Statistics, Ministry of Agriculture
/2: Indian Sugar Mills Association except 2009/10 and 2010/11
/3: FAS/New Delhi estimate

Table 4: Mill Sugar Production by State

(Figures in 100,000 tons crystal weight basis)

State	**2007/08**	**2008/09**	**2009/10**	**2009/10**
	Final	**Revised**	**Revised**	**Forecast**
Andhra Pradesh	13.4	5.9	5.5	12.0
Bihar	3.4	2.1	2.6	3.0
Gujarat	13.7	10.1	12.0	14.0
Haryana	6.0	2.3	2.0	4.0
Karnataka	29.0	16.5	22.0	24.0
Maharashtra	90.8	45.8	63.0	74.0
Punjab	5.3	2.4	1.8	4.0
Tamil Nadu	21.4	16.0	12.0	20.0
Uttar Pradesh	73.2	40.6	52.0	65.0
Others	7.5	3.5	4.1	7.0
Total	263.56	145.38	177.00	227.00

Note: Excludes khandsari sugar, as state break-up is not available.

Source: /1: MYs 2007/08 and 2008/09 - Indian Sugar Mills Association
/2: MYs 2009/10 and 2010/11 – FAS/New Delhi Estimate

Table 5: Commodity, Centrifugal Sugar, Price Table
(Price in crystal weight basis)

Prices in	Rupees		per uom	Metric Tons
Year	2008	2009	2010	% Change
Jan	15500	22350	40500	81%
Feb	15150	22800	35750	57%
Mar	16600	22000	33600	53%
Apr	16000	24250		
May	15350	24000		
Jun	15250	24750		
Jul	18250	25750		
Aug	19000	30000		
Sep	18500	30500		
Oct	18000	33500		
Nov	18100	35000		
Dec	19650	38750		
Exchange Rate	46.00	47.90	45.50	
Local Currency/US $				

Note: Exchange rate for 2008 and 2009 refers to Indian Fiscal Years 2008/09 (April/March) and IFY 2009/10 respectively. Exchange rate of 2010 refers to first week of April, 2010.

Source & Contract Terms: Indian Sugar Mills Association; month-end prices in the Delhi wholesale market

Table 6: Commodity, Gur, Price Table
(Price in actual weight basis)

Prices in	Rupees		per uom	Metric Tons
Year	2008	2009	2010	% Change
Jan	12000	19750	28000	42%
Feb	13250	19500	27250	40%
Mar	13000	22000	25500	16%
Apr	14000	28000		
May	15750	28000		
Jun	17000	29500		
Jul	18750	28500		
Aug	19500	31500		
Sep	19500	29500		
Oct	19500	25000		

Nov	19500	26500		
Dec	19500	28000		
Exchange Rate	46.00	47.90	45.50	
Local Currency/US $				

Note: Exchange rate for 2008 and 2009 refers to Indian Fiscal Years 2008/09 (April/March) and IFY 2009/10 respectively. Exchange rate of 2010 refers to first week of April, 2010.

Source & Contract Term: Indian Sugar Mills Association; month-end prices in the Delhi wholesale market.

Table 7: Commodity, Sugarcane, Price Table

(Price in Rs. per ton)

PRICE	**2009/10**	**2008/09**	**2007/08**
Minimum Support Price (MSP) or Fair Remunerative Price (FRP) for			
Wheat	11000	10800	10000
Rice (Grade A)	9800	8800/3	6750/1
Sugarcane	129.84/4	811.8/5	811.8/5
State Advised Price for Sugarcane			
Uttar Pradesh	1650-1700/7	1400-1450/6	1250-1320
Haryana/Punjab	1850-1900	1400-1500	1100-1300
Southern States/8	2000-2400	1200-1600	850-1050

Notes:

/1: An additional bonus of Rs. 1000/MT was paid over the MSP.

/2: An additional bonus of Rs. 400/MT was paid over the MSP between Oct 2006 to March 2007.

/3: An additional bonus of Rs. 500/MT was paid over the MSP.

/4: FRP for 2009/10 linked to a basic recovery rate of 9.5 percent, and for every 0.1% increase in recovery over the basic recovery rate, an additional premium of Rs. 13.7/MT.

/5: The MSP for 2007/08 and 2008/09 linked to a basic recovery rate of 9.0 percent, and for every 0.1 % increase in recovery over basic recovery rate, an additional premium of Rs. 9.0/mt.

Exchange Rate:

IFY 2007/08 (April/March) 1 US$= 41.00 Indian Rs.

IFY 2008/09 (April/March) 1 US$= 46.00 Indian Rs.

IFY 2009/10 (April/March) 1 US$= 47.0 Indian Rs.

Source: Indian Sugar Mills Association

Table 8: Import Trade matrix: Centrifugal Sugar

(Quantities in Raw weight basis)

Time Period	**Oct-Sept**	**Units:**	**Metric Tons**
Imports for:	**2009**		**2010**
U.S.	**0**	U.S.	**0**
Others		Others	
Brazil	2570200	Brazil	2376600
Thailand	144260	Thailand	375750
Myanmar	23590	U.A.E	79980
South Africa	29950	Argentina	22970
U.A.E	18000	Guatemala	17390

Total for Others	2786000		2872690
Others not Listed	0		63710
Grand Total	2786000		2936400

Note: Import figures for 2010 refer to the period Oct, 2009 to Feb 2010.

Source: Industry sources

Table 9: Export Trade matrix: Centrifugal Sugar
(Quantities in actual weight basis)

Time Period	**Oct-Sept**	**Units:**	**Metric Tons**
Exports for:	**2009**		**2010**
U.S.	**0**	U.S.	**0**
Others		Others	
SriLanka	68650	Nepal	5000
Somalia	18150		
Saudi Arabia	16100		
U.A.E	14685		
Afghanistan	12790		
Nepal	11550		
Greece	10935		
Kenya	11065		
Total for Others	163925		5000
Others not Listed	12075		0
Grand Total	176000		5000

Note: Export figures for 2010 refer to the period Oct, 2009 to Feb 2010.

Source: Industry sources